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DEPARTMENT OF COMMERCE

International Trade Administration

[Docket No. 130612543-3543-01]  
RIN 0625-XC007

*De Facto* Criteria for Establishing a Separate Rate in Antidumping Proceedings Involving Non-Market Economy Countries

AGENCY: Import Administration, International Trade Administration, Department of Commerce.

ACTION: Determination to Address Certain Criteria on a Case-by-Case Basis.

SUMMARY: On December 16, 2010, the Department of Commerce (“the Department”) published a *Federal Register* notice announcing that it was considering revising its current practice with respect to the *de facto* criteria<sup>1</sup> examined for purposes of determining whether to grant separate rate status to individual exporters in antidumping proceedings involving non-market economy (“NME”) countries. Through that notice, the Department invited the public to comment on the current test.<sup>2</sup> Numerous parties filed comments in response, addressing the Department’s current practice and proposing additional criteria for the Department to consider in its analysis. The Department has determined that several of these comments warrant consideration on a case-by-case basis, as discussed below, when assessing whether a foreign producer/exporter in an NME country is sufficiently free of government control of its export activities to warrant separate rate status.<sup>3</sup>

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<sup>1</sup> The Department did not make a request for comments on the *de jure* criteria currently examined for purposes of establishing a company’s separate rate.

<sup>2</sup> See *De Facto Criteria for Establishing a Separate Rate in Antidumping Proceedings Involving Non-Market Economy Countries*, 75 FR 78676 (December 16, 2010).

<sup>3</sup> The Department currently considers the following countries to be NME countries – Armenia, Belarus, Georgia, the Kyrgyz Republic, Moldova, the People’s Republic of China, the Republic of Azerbaijan, the Socialist Republic of Vietnam, Tajikistan, Turkmenistan and Uzbekistan.

EFFECTIVE DATE: Date of publication in the *Federal Register*.

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## SUPPLEMENTARY INFORMATION

### *Background*

In proceedings involving NME countries, the Department has had a rebuttable presumption that the export activities of all companies within the country are subject to government control and, thus, should be assessed a single antidumping duty rate, *i.e.*, the NME-Entity rate.<sup>4</sup> It has been the Department's practice to assign all exporters of merchandise subject to an antidumping investigation or review from an NME country this single rate unless an exporter can demonstrate that it is sufficiently independent of the government in its export activities, on both a *de jure* and *de facto* basis, so as to be entitled to a separate rate. The Department has analyzed each entity exporting the subject merchandise that applies for a separate rate under a test that was first articulated in *Final Determination of Sales at Less Than Fair Value: Sparklers from the People's Republic of China*, 56 FR 20588 (May 6, 1991) ("*Sparklers*"), as further developed in *Final Determination of Sales at Less Than Fair Value: Silicon Carbide from the People's Republic of China*, 59 FR 22585 (May 2, 1994) ("*Silicon Carbide*").<sup>5</sup> However, if the Department determined that an exporter of NME-produced

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<sup>4</sup> See 19 CFR 107(d) (providing that "in an antidumping proceeding involving imports from a nonmarket economy country, 'rates' may consist of a single dumping margin applicable to all exporters and producers").

<sup>5</sup> See also Policy Bulletin 05.1, which states: "[w]hile continuing the practice of assigning separate rates only to exporters, all separate rates that the Department will now assign in its NME investigations will be specific to those producers that supplied the exporter during the period of investigation. Note, however, that one rate is calculated for the exporter and all of the producers which supplied subject merchandise to it during the period of investigation. This practice applies both to mandatory respondents receiving an individually calculated separate rate as well as the pool of non-investigated firms receiving the weighted-average of the individually calculated rates.

merchandise is wholly foreign-owned or located in a market economy (“ME”) country, the exporter has not been subject to the separate rates test.

On December 16, 2010, the Department published a *Federal Register* notice announcing that it was considering revising its approach with respect to the *de facto* criteria examined for purposes of determining whether to grant separate rate status to individual exporters in antidumping proceedings involving NME countries.<sup>6</sup> Through that notice, the Department invited the public to comment on modifying the test. Between January 18 and 31, 2011, the Department received comments from numerous parties.<sup>7</sup> These comments and this Determination to Address Certain Criteria on a Case-by-Case Basis can be accessed using the Federal eRulemaking Portal at <http://www.Regulations.gov> under Docket Number ITA-2011-0010.

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This practice is referred to as the application of “combination rates” because such rates apply to specific combinations of exporters and one or more producers. The cash-deposit rate assigned to an exporter will apply only to merchandise both exported by the firm in question and produced by a firm that supplied the exporter during the period of investigation.”

<sup>6</sup> See *De Facto Criteria for Establishing a Separate Rate in Antidumping Proceedings Involving Non-Market Economy Countries*, 75 FR 78676 (December 16, 2010).

<sup>7</sup> Commenters included: 1) the Ministry of Commerce of the People’s Republic of China (“GOC”); 2) the Ministry of Industry and Trade of the Socialist Republic of Vietnam (“GOV”); 3) the Committee to Support U.S. Trade Laws (“CSUSTL”); 4) King and Spalding on behalf of: (A) American Furniture Manufacturers Committee for Legal Trade and its individual Members (AFMC); (B) Polyethylene Retail Carrier Bag Committee and its individual members (PRCB Committee); (C) Laminated Woven Sacks Committee and its individual members (LWS Committee); (D) US Magnesium LLC; (E) Bridgestone Americas, Inc. & Bridgestone Americas Tire Operations LLC (collectively Bridgestone); and (F) AK Steel Corporation; 5) Kelley Drye & Warren LLP on behalf of: (A) American Honey Producers Association; (B) American Spring Wire Corp., (C) Christopher Ranch, LLC; (D) Council Tool Company Inc.; (E) DAK Americas, LLC; (F) East Jordan Iron Works Inc.; (G) The Garlic Company; (H) Insteel Wire Products Company; (I) Neenah Foundry Company; (J) Nashville Wire Products, Inc.; (K) Norit Americas, Inc.; (L) SGL Carbon LLC; (M) Sioux Honey Association; (N) Superior SSW Holding Co., Inc.; (O) Sumiden Wire Products Corp.; (P) U.S. Foundry & Manufacturing Co.; (Q) Valley Garlic; (R) Vessey and Company; 6) Nucor; 7) Retail Industry Leaders Association (“RILA”); 8) Stewart & Stewart; 9) the Southern Shrimp Alliance (“SSA”); 10) US Steel; 11) Vietnam Chamber of Commerce and Industry; and 12) Zhao-King, LLC (“ZK”).

## THE SEPARATE RATE TEST

Typically, the Department has considered four criteria in evaluating whether a respondent is subject to *de facto* governmental control over its export activities. They are: (1) whether the respondent's export prices are set by or are subject to the approval of a governmental agency; (2) whether the respondent has authority to negotiate and sign contracts and other agreements; (3) whether the respondent has autonomy from the government in making decisions regarding the selection of management; and (4) whether the respondent retains the proceeds of its export sales and makes independent decisions regarding the disposition of profits or financing of losses.<sup>8</sup> The Department has determined that an analysis of *de facto* control is critical in determining whether an exporter should receive a separate rate.

When conducting its *de facto* separate rate analysis, the Department has asked an exporter requesting a separate rate questions regarding: 1) ownership of the exporter and whether any individual owners hold office at any level of the NME government; 2) export sales negotiations and prices; 3) composition of company management, the process through which they were selected, and whether any managers held government positions; 4) the disposition of profits; and 5) affiliations with any companies involved in the production or sale in the home market, third-country markets, or the United States of merchandise which would fall under the description of merchandise covered by the scope of the proceeding. The Department's full Separate Rate Status Application, Separate Rate Certification, and NME Antidumping Questionnaire are available on the Department's website at <http://www.trade.gov/ia>.

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<sup>8</sup> See *Silicon Carbide*; see also *Notice of Final Determination of Sales at Less Than Fair Value: Furfuryl Alcohol From the People's Republic of China*, 60 FR 22544, 22545 (May 8, 1995).

## RESPONSE TO COMMENTS

### *Case-by-case Consideration of Changes*

The Department agrees that certain suggestions by parties should be considered on a case-by-case basis in administrative proceedings where record information indicates that such consideration is warranted.

*A. Refine the de facto test with requests for additional documentary support and additional questions regarding the relevant criteria.*

Several commenters suggested that the Department more closely examine whether the government has direct or indirect power to appoint, remove, or control the selection of an entity's directors, senior officials, or other members of senior management, and whether it is able to direct the financial affairs of the company by, *e.g.*, making selling or purchasing decisions. Several commenters argue that the Department currently conducts only a cursory review of the separate rate criteria, essentially shifting the burden to petitioners to show government control. They argue the burden should be shifted back to respondents and the Department should apply enhanced scrutiny to determine if there are additional types of documentation that would serve to support, or undermine, a respondent's claim that it is entitled to a rate separate from that of the NME-wide entity. Several commenters also suggested that the Department examine whether members of the government or its ruling party hold senior management positions in the enterprise because the government may maintain control over certain industries or enterprises by installing party members or government officials in positions where they directly participate in decision-making and management. One commenter asserted that the Department should find that a respondent is materially dependent on the government and deny the respondent a separate rate where two or more company managers or members of the board of directors are members of

the local, provincial, or national government. Another commenter argued that the Department should consider whether any of the directors or managers of the respondent serve as directors or managers for any state-owned entities.

As an initial matter, the Department does not agree that it has shifted the burden of proof onto petitioners or that the *de facto* criteria are designed to place an evidentiary burden on one party versus another. Instead, the criteria have been established because they are necessary to determine whether an exporter is sufficiently independent in its export activities to be entitled to a “separate rate.” The Department agrees, however, that identifying and reviewing additional information regarding certain of the topics raised by the commenters could be useful in evaluating the extent to which a government controls an entity’s pricing, selling and purchasing decisions as they relate to the company’s export activities, when the record does not already clearly demonstrate the respondent’s claimed independence. In general, the respondent companies are the parties in possession of the information regarding their day-to-day operations. The Department will therefore consider, on a case-by-case basis, issuing supplemental questionnaires to identify and review additional documentation and information that would directly or indirectly relate to the issue of *de facto* government control by any level of government in cases where the respondent’s initial questionnaire responses do not provide sufficient information to support its claim. Depending on the record evidence, the supplemental questions might address: 1) selection and removal of directors and managers at the producing/exporting company; 2) identification of parties that have the authority to approve contracts and bank transactions, *etc.*, on behalf of the company; 3) ownership, including individual and corporate (direct and indirect shareholdings or equity holdings); 4) whether any corporate owners are state-owned, state-controlled, or otherwise affiliated with the State, at the

national or sub-national government levels; and 5) whether any managers hold government positions at the national or sub-national government levels, among possible considerations. The specific facts of each case would be instructive to the Department in deciding to issue such questionnaires and what information such questionnaires would address.

*B. Conduct more separate rate verifications where budget and resources allow.*

Several commenters suggested that the Department should conduct more verifications of entities claiming eligibility for a separate rate, particularly those entities for which record evidence indicates their claim of freedom from government control over export activities is questionable. The commenters suggest that such verifications could include, for example, the following: 1) increased issue-focused verifications of exporters and their producing suppliers; 2) more focus on companies that have previously failed verification; or 3) enhanced verification of companies that previously received partial or total adverse facts available determinations based on their failure to cooperate to the best of their ability.

The Department agrees that conducting verification may be helpful in enhancing the Department's ability to enforce the AD law, particularly when the issue of freedom from government control over a firm's export activities is brought into question by record evidence and past practice. The Department has conducted verification in such cases in the past, where budget and resources allow, and consistent with this practice and these comments, the Department will continue to consider verification of separate rate information where warranted, on a case-by-case basis.

*C. Do not automatically grant separate rates to firms with trading arms and/or producers located in market economies.*

One commenter suggested that the Department should end its practice of automatically granting separate rates to companies with export offices in ME countries because the respondent can simply set up a shell company in an ME to avoid a separate rate analysis.

We agree that there is a legitimate concern that NME producers under government control selling through affiliated third-country resellers may, in fact, control that reseller and, in such cases, the reseller's exporting activities would also be under government control. However, we do not consider that the potential for this scenario warrants a wholesale change in practice. Rather, in cases where a respondent has a producing entity in the PRC and an affiliated reseller in an ME country, we will endeavor to examine, on a case-by-case basis, whether any supplemental information is required to determine if the affiliated reseller is under government control through the producer located in the NME country. In circumstances when the record indicates there may be government control through the NME producer, we may require both the NME producer and the ME exporter to provide information similar to that requested in the NME Separate Rate Application.

*D. Deny the respondent a separate rate where the integrity of its data and recordkeeping systems does not allow it to provide complete ownership information, because such a lack of information precludes the Department from effectively undertaking an adequate separate rate analysis.*

The Department has discovered, through its administration of the antidumping duty law, that certain respondents fail to disclose their complete ownership, or substantiate their claimed ownership, on the administrative record, despite the Department's request for those data. This creates a substantial problem for the Department. When the company cannot demonstrate complete ownership, the Department is effectively precluded from conducting a full separate rate



analysis. For example, absent such data, we are not able to make meaningful determinations about the: 1) appointment of the Board of Directors, 2) selection of management, 3) day-to-day operational control of the company, and 4) affiliation with other parties, including those that might be managed/operated by the government. Thus, without complete and verifiable ownership information on the administrative record, the Department generally is left with no evidentiary basis to find that the company is independent from *de facto* government control of its export activities. Accordingly, in these cases, the Department has treated the respondent as part of the NME-wide entity and denies the respondent a separate rate.<sup>9</sup>

If a respondent withholds or otherwise does not provide complete ownership information, the Department has normally concluded that the respondent has failed to act to the best of its ability in not providing such necessary information, pursuant to section 776(b) of the Act. That conclusion was warranted because, in the ordinary course of business, a company is expected to maintain complete ownership information. Additionally, in such cases, as a result of the failure to provide complete ownership information, the Department has applied an adverse inference in assigning a facts available rate to the NME-wide entity of which that respondent is a part.<sup>10</sup> Under this analysis, the Department has not determined that ownership by an NME government automatically equated with control by the government. Instead, the Department determined that, when a producer or exporter fails to supply complete ownership information, we lacked an adequate basis on which to determine whether the respondent is subject to government control of

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<sup>9</sup> See, e.g., *Porcelain-on-Steel Cooking Ware from the People's Republic of China: Notice of Final Results of Antidumping Duty Administrative Review*, 71 FR 24641 (April 26, 2006), and accompanying Issues and Decision Memorandum at Comment 1 (applying facts available because Commerce could not verify the respondent's ownership information).

<sup>10</sup> See *id.* at Comment 2. See also *Certain Frozen Warmwater Shrimp from the People's Republic of China: Preliminary Notice of Intent to Rescind Antidumping Duty New Shipper Review*, 72 FR 41058, 41060 (July 26, 2007).

its export activities. On the basis of the comments received, we see no reason to deviate from this analytical approach.

*Comments the Department Believes Do Not Warrant a Reconsideration of Department Practice at This Time*

Numerous commenters asserted that the *de facto* analysis should include a threshold determination of state ownership, which would be dispositive of whether the NME government is exercising control over an entity's export activities. Some commenters further suggested that government control should be found: (1) where any level of the NME government ownership is five percent or more; (2) where the separate rate applicant, or its parent company or ultimate owner, is under the supervision of a central, provisional, or local State-owned Assets Supervision and Administration Commission ("SASAC") in the PRC; or (3) where, in a countervailing duty investigation, the Department has previously found the applicant to be so closely related to the government to be an "authority" under Section 771(5)(B) of the Tariff Act of 1930. Several other commenters argued that the Department should examine whether any shareholder owning more than ten percent of company stock has a leadership role in the Communist Party. Other commenters asserted that the Department should find that a respondent is materially dependent on the government and deny the respondent a separate rate where two or more company managers or members of the board of directors are members of the Communist Party or the PRC's People's Liberation Army or where any company manager, board member, or shareholder owning more than ten percent of company stock has a leadership role in the Communist Party or the local, provincial, or national state offices of the Communist Party.

As the Department has stated in the past, we do not believe that ownership by the government, on its own, is sufficient to warrant a determination that the government controls

the export activities of a given exporter and/or producer. In *Silicon Carbide*, we determined that, while state-owned enterprises were previously subject to central government control, reform had brought significant changes and devolved control of government-owned enterprises such that the application of a single country-wide rate to all respondents in an NME country was not always warranted.<sup>11</sup> As such, we determined that an NME respondent may receive a separate rate if it establishes both *de jure* and *de facto* absence of governmental control of its export activities.

Further, a determination by the Department that a company is an “authority” in a countervailing duty investigation is not the same as determining the degree of control the government has over a company’s export activities for purposes of an antidumping proceeding. Specifically, an “authority” analysis, exclusive to the countervailing duty law, is ultimately concerned with whether the government has provided a subsidy. On the other hand, the focus of the antidumping law with respect to the separate rates analysis is to determine whether the export activities of the respondent are controlled by the government. The U.S. antidumping and countervailing duty laws are distinct and separate, operating on different principles, concepts and requirements and remedying distinct unfair trade practices. Accordingly, we have declined to incorporate these proposed refinements to our separate rate analysis.

Certain commenters argued that the Department should require all respondents to disclose the extent to which they export subject merchandise manufactured or supplied by another party, in order to analyze the extent that the respondent’s activities may be directed by that party. Finally, one commenter suggested that the Department should require separate rate applications from NME exporters and their NME suppliers in combination to address the

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<sup>11</sup> See *Silicon Carbide*.

possibilities of (a) state-controlled producers using independent exporters as conduits for subject merchandise or (b) exporters benefiting indirectly from government control of a producer. The Department's separate rate test already requires that all NME exporters demonstrate that they operate free of government control of their export activities. Generally, we do not find it necessary to require the producer to provide the same information already provided by the exporter. However, where, for example, the record indicates that a government-controlled supplier may control the export activities of the respondent, we may deem it appropriate to investigate the issue further. Accordingly, we have declined to incorporate these proposed refinements to our separate rate analysis.

A number of commenters did not address the *de facto* criteria of the Department's separate rate analysis as applied to individual exporters. For example, some commenters representing either foreign producers/exporters or the Chinese or Vietnamese governments argued that the Department should eliminate the separate rate test entirely or reverse the presumption of government control. One commenter argued that government control should be found only if the Department's collapsing criteria are satisfied with regard to the respondent and the government. These comments essentially argue for elimination of the separate rate test and, thus, are not responsive to the Department's request regarding enhancement of the *de facto* criteria.

Other commenters suggested the Department examine industry-wide or national initiatives that go far beyond government involvement in day-to-day operational decisions. For example, commenters asked the Department to inquire into whether the industry was subject to:

- 1) a government industrial plan governing either imports, exports, production or asset transfer; 2)

government rules or regulations governing items such as foreign investment, asset transfers,

capacity utilization, quality improvements, technological innovation, and purchasing decisions; 3) a mandatory export price/quota scheme or import price/quota scheme, as determined by a government-entity or a trade association; or 4) an export licensing scheme.

The Department already examines laws and regulations regarding export licenses, certificates and other restrictions to an entity's ability to export under our *de jure* analysis. *See* the Department's Separate Rate Application at Section III. Thus, because the Department's analysis treats these issues as relevant to the *de jure* analysis, we consider them beyond the scope of this request for comments on the *de facto* criteria. Further, the remainder of these comments refer to macro-level factors which are not a part of the separate rate analysis, but, instead, relate more directly to an analysis of a market-oriented industry ("MOI") or a market-economy status ("MES") claim, which do not involve a single entity, but rather an industry or the economy as a whole.

As the Department explained in its December 16, 2010, *Federal Register* notice, the Department requested comments only on possible refinements to the *de facto* criteria of its separate rates test. We understand that certain commenters wish to address the separate rate analysis in its entirety, but this is beyond the scope of the request for comments and, accordingly, the Department has not considered them further.

## CONCLUSION

In sum, after reviewing and considering interested party comments and concerns, the Department has determined, as discussed above, that to the extent that we agree with some of the comments received, the Department will consider addressing the issues raised in those comments in our future administrative proceedings on a case-by-case basis.

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for Import Administration

June 28, 2013  
Date

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